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ABSTRACT

This three-part curriculum for entrepreneurship education is primarily for postsecondary level, including four-year colleges and adult education, but it can be adapted for special groups or vocational teacher education. The emphasis of the seven instructional units in Part II is establishing a business. Unit A focuses on developing a business plan. It includes information about (1) the planning function, (2) what business plans include, (3) why a business plan should be developed, and (4) how a business plan can be used. Material is organized into three levels of learning which progress from simple to complex concepts: Exposure, Exploration, and Preparation/Adaptation. Each level contains preassessment; teaching/learning objectives; substantive information (questions in margins guide the students' reading); activities, including postassessment; and a self-evaluation. Definitions of important terms are found at the beginning of the unit; a bibliography is appended. The four-page instructor's guide contains the teaching/learning objectives, teaching/learning delivery suggestions, and pre/postassessment suggested responses. (YLB)

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Research and Development Series No. 194 B-1

PACE

A PROGRAM FOR ACQUIRING COMPETENCE IN ENTREPRENEURSHIP

PART II: Becoming an Entrepreneur
UNIT A: Developing the Business Plan

The National Center for Research in Vocational Education
The Ohio State University
Columbus, Ohio 43210

1980

U S DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

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CE 028 194

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PART II: BECOMING AN ENTREPRENEUR

UNIT A: DEVELOPING THE BUSINESS PLAN

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FOREWORD

Traditionally vocational education has been geared primarily to preparing students for employment--to preparing employees. Yet there is another career path available; students can learn how to set up and manage their own businesses. They can become entrepreneurs.

Vocational education, by its very nature, is well suited to developing entrepreneurs. It is important that entrepreneurship education be developed and incorporated as a distinct but integral part of all vocational education program areas. A Program for Acquiring Competence in Entrepreneurship (PACE) represents a way to initiate further action in this direction.

The strength behind these instructional units is the interest and involvement of vocational educators and successful entrepreneurs in the state of Ohio and across the nation. Special recognition is extended to the project staff: Lorraine T. Furtado, Project Director and Lee Kopp, Program Associate. Appreciation is also expressed to the many who reviewed and revised the drafts of the units: Ferman Moody, Hannah Eisner, and Sandra Gurvis. We owe a special thanks to those consultants who contributed to the content of this publication: Carol Lee Bodeen, Louis G. Gross, Douglass Guikema, Peter G. Haines, Philip S. Manthey, Charles S. McDowell, Mary E. McKnight, Steven R. Miller, Barbara S. Riley, Barbara A. Rupp, Ruth Ann Snyder, Robert L. Suttle, Florence M. Wellman and Roy H. Young.

Robert E. Taylor
Executive Director
The National Center for
Research in Vocational Education

HOW TO USE PACE

A Program for Acquiring Competence in Entrepreneurship (PACE) is a curriculum responsive to the need for instruction in entrepreneurship. It is primarily for postsecondary level, including four year colleges and adult education, but it can also be adapted for special groups. PACE is divided into three parts (1) Getting Ready to Become an Entrepreneur, (2) Becoming an Entrepreneur (establishing a business), and (3) Being an Entrepreneur (operating a business).

Each of the three parts has a set of instructional units which relate to that topic. Within these units, the material is organized into three levels of learning: Exposure, Exploration, and Preparation/Adaptation. These levels of learning progress from simple to complex concepts.

The levels of learning will enable you to use the PACE materials to suit your individual needs. You may find it best to work with the exposure level of one unit and the exploration level of another. Or, you may choose to pursue one level throughout the entire series. You might also want to work through two or more levels in one unit before going on to the next unit.

Before beginning a unit, discuss with your instructor what level or levels of learning in that unit are most appropriate to your goals and abilities. Read the unit overview and look through the pre/post-assessments for the three levels to help you in your choice. Also check the list of definitions you might need to look up or research for that level.

When you are ready to start, turn to the level you have chosen, take the preassessment and identify those items which you feel need special attention in the unit. Also look at the learning objectives; they will tell you what you should be able to do by the time you finish that level of learning.

As you read, you will notice questions in the margins alongside the substantive content portion of each level. Use these questions to guide your reading.

At the end of each level of learning are activities which help you become involved with the content presented in the unit. You and your instructor can decide on how many activities you should do; you may want to do several or you many need to do all.

Then, evaluate yourself. Is there any material that you need to review before you take the postassessment? The difference in your answers on the pre/postassessments should show you how much you have grown in your knowledge of entrepreneurship.

When you and your instructor feel that you have successfully completed that level, you are ready to begin another level of learning, either in the same unit or in another.

OVERVIEW OF THE UNIT

One of the preliminary steps in opening a business is developing a business plan. A business plan can help assure success in performing many of the business functions. You can use your plan to acquire money from a lender or a potential investor. Business plans help project your sales volume, cost of goods sold, and minimum inventory requirements. In short, it helps plan for the unexpected and puts you in control of the firm's operations.

Developing a business plan is the focus of this unit. The unit includes information about the planning function; what business plans include; why you should develop a business plan; and how a business plan can be used.

DEFINITIONS TO KNOW BEFORE YOU BEGIN

As you read through a level, you might find some unfamiliar words. Listed below are several business terms used in each level. Knowing these before you begin might help you to better understand that level.

EXPOSURE

audit

EXPLORATION

stockholder
cash flow
distribution channels
auditor

PREPARATION/ADAPTATION

cash flow
auditor

PACE

PATH OF STUDY

PART I -- GETTING READY TO BECOME AN ENTREPRENEUR

Unit I A

Unit I B

Unit I C

PART II -- BECOMING AN ENTREPRENEUR

Unit II A -- Developing the Business Plan

Unit II B

Unit II C

Unit II D

Unit II E

Unit II F

Unit II G

PART III -- BEING AN ENTREPRENEUR

Unit III A

Unit III B

Unit III C

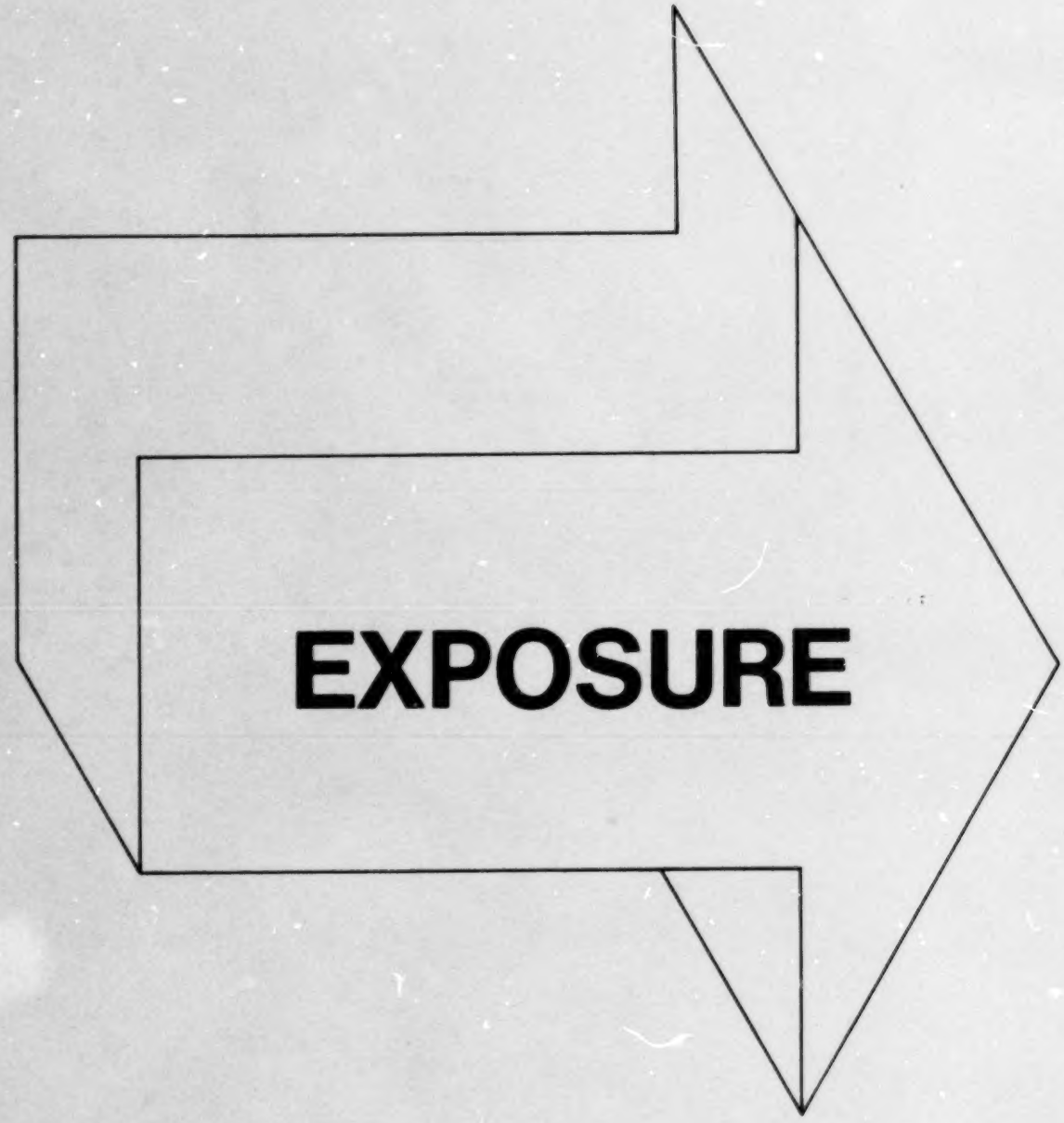
Unit III D

Unit III E

Unit III F

Unit III G

Unit III H


EXPOSURE

EXPOSURE

PART II, UNIT A
DEVELOPING THE
BUSINESS PLAN

PREASSESSMENT

Here are some questions that test for knowledge of the contents of this level. If you are very familiar with the information needed to answer them, perhaps you should go to another level or unit -- check with your instructor. Otherwise, jot down your answers. After you've read through this level, take the postassessment at the end of the "Exposure Activities" section and measure what you've learned.

1. Why is it so important for an entrepreneur to have a business plan?
2. What steps are necessary in planning?
3. What is involved in developing a business plan?
4. What information would you want your business plan to include?

TEACHING/LEARNING OBJECTIVES

Upon completion of this level, you should be able to:

1. Describe the value of planning.
2. State why business plans are important.
3. Identify the steps in planning.

SUBSTANTIVE INFORMATION

INFORMATION IN A PLAN

WHY IS PLANNING NECESSARY?

Starting a new business is like constructing a new building. To a casual observer, the building is started when workers begin to dig the foundation. But to the developer or builder, the building was started two years prior to excavation. Someone had to think up the idea, someone had to finance the construction, the zoning had to be approved, the land purchased, the architect hired, the building designed, the building permit acquired, the building materials ordered, the job contracted and so on. Each step was part of a total plan.

Starting a business is similar. From the very beginning, each step takes place as part of a total plan.

To develop effective plans, the planner must possess adequate information. The builder needs detailed information on the blueprints. The lending institution needs financial facts to make a loan. All involved parties will need information from the planner. The planner must have the information or know where to get it so that important decisions can be made effectively.

Suppose you were planning a vacation. How would you go about it? What information would you need? What alternatives would you consider? Here are some of the steps that you would

probably take in making a decision about your vacation.

1. Define the want, need, or goal. Developing a vacation plan is responding to a want, need, and goal. The purpose of the plan is a vacation.
2. Analyze alternatives in terms of your goal. You must consider where to go, what to see, how much money to take, what clothes to take, what route, tickets, reservations, time tables, etc. All are involved in making vacation plans.
3. Select one or two alternatives that best fit your need or goal. These alternatives might include various hotels and types of transportation.
4. Make a final decision. Where will you go? Where will you stay? How long will your vacation be?
5. Enact your plan. Go on the vacation.
6. Evaluate your decision for future reference. You may decide, "I'll never go to Florida in August again--it's just too hot for me."

You can see that a plan is very necessary if you hope to have a successful vacation. A business plan likewise helps to ensure a successful business venture.

A business plan is a step toward having a successful business. Answers to the following questions could be included in your business plan.

- Why do I want to be in business?
- What exactly is my business going to be?
- What goods or services am I going to provide?
- Who will be my customers?
- Who will be my competitors?
- What will it cost to start up the business?
- What are my land, labor and capital needs?

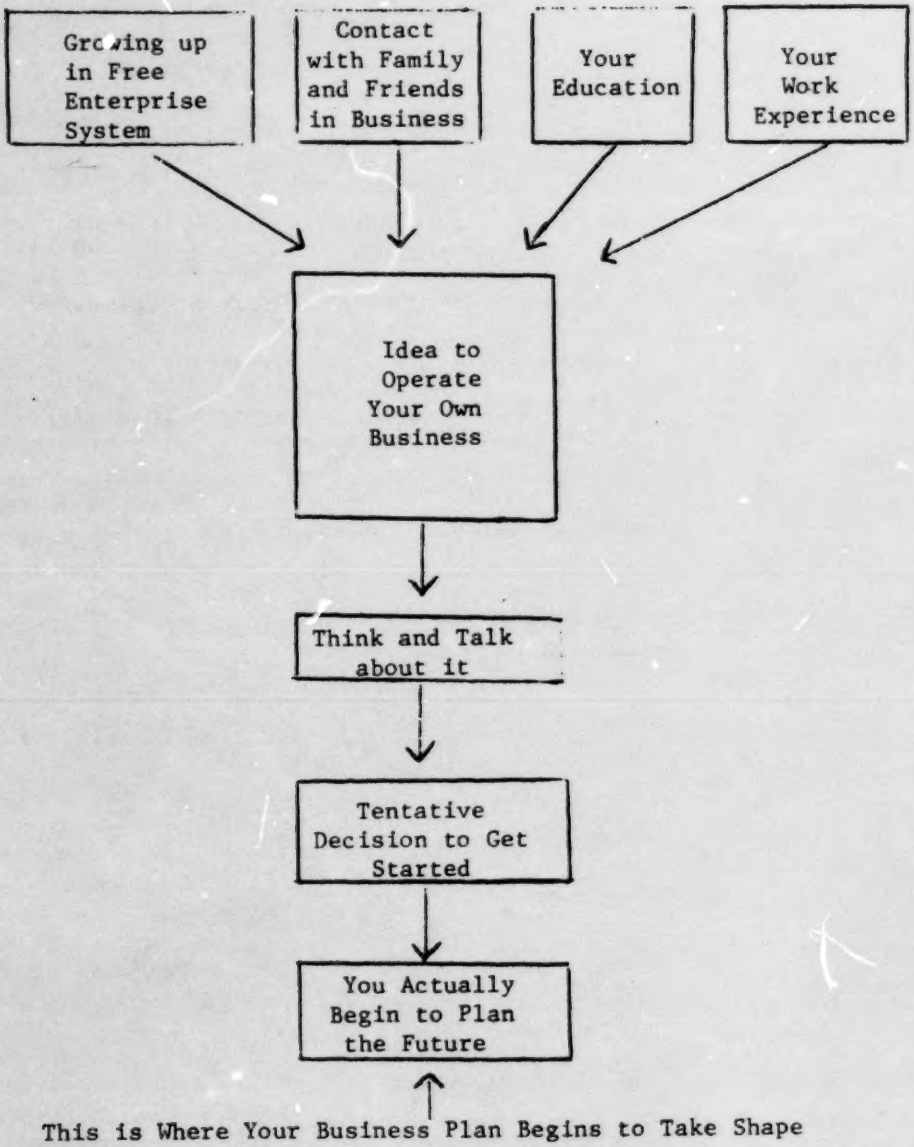
A good planner will rarely consider only one alternative to solve a problem. To determine which alternative is best, the planner needs information. When a planner considers more than one alternative, chances of making the right decision are increased. Information is the basis for making final decisions.

DEVELOPMENT OF A BUSINESS PLAN

HOW DOES PLANNING RELATE TO YOU?

Planning a new business is closely related to one's personal experiences. Most successful business ventures have a personal and individual quality to them and come from first-hand knowledge and experience. Building upon this experience is much better than starting a business in an area which is completely unknown to you.

The combination of life experiences--educational, work, social, cultural, economic--also contribute to the creation of a business idea. If you were to diagram the development of a good business idea, it might initially look like this:


Growing up in Free Enterprise System
Contact with Family and Friends in Business
Your Education
Your Work Experience
Idea to Operate Your Own Business
Think and Talk about it
Tentative Decision to Get Started
You Actually Begin to Plan the Future
This is Where Your Business Plan Begins to Take Shape

Part II, Unit A
Developing the
Business Plan

If you were interested in operating your own retail floral shop, how would you develop an effective business plan? Here are some areas to consider:

1. Why do I want to go into business?
2. Why have I chosen a flower shop?
3. What are the requirements of a florist?
    a. Personal
    b. Educational
    c. Experiential
4. How much business can I do?
5. How much business will I have to do?
6. What financial returns can I expect?
7. In what city do I locate?
8. Where do I locate within the city?
9. What is the competition?
10. Do I buy or lease?
11. How do I finance the capital required?
12. What type of ownership should I have?
13. How should the shop layout be designed?
14. What equipment do I need?
15. How do I set up a buying plan?

PLANNING FOR AN EXISTING BUSINESS

IS PLANNING IMPORTANT IN THE EXISTING BUSINESS?

Planning is critically important to the beginning entrepreneur as well as to the business owner who wants the business to continue to be successful. In the past, entrepreneurs could wait to "jump on the band wagon" until a product or service was proven successful. In this rapidly changing business world, however, entrepreneurs need to look ahead.

The owner of an existing business needs to "audit" his or her business, get as much information as possible from various resources, and develop a business plan. To develop plans which provide direction for the firm, the company's present situation must be analyzed. The following questions will help the entrepreneur assess the firm:

- What is my business?
- What is my place in the industry?
- What is my competitive niche or advantage?
- Who are my customers?
- Are these customers the type I want?
- What is my company image to potential customers?
- What is my biggest problem?
- What is my competition's biggest handicap and how can I exploit it?

- What are my specific goals for improvement?
- What percentage of the market do I want?
- What will my industry be like in five or ten years?
- How can I finance growth?

MAKING PLANS WORK

HOW CAN YOU MAKE PLANS WORK?

Planning is the process of establishing objectives and identifying the methods to be used to reach them. It involves looking objectively at the hard facts of a business venture. The plan will help you decide if the venture is feasible.

You must be able to distinguish your feelings and what you want to believe from the hard facts. From the beginning of your business venture it is important not to confuse facts with beliefs. Planned actions are based on data--not "guessing," and sound business decisions are based on facts. While the future is unknown, well-developed plans allow the owner to take advantage of opportunities and prevent, or at least minimize possible difficulties.

EXPOSURE ACTIVITIES

As you have just read, the business plan is a very important part of establishing a business. Now that you have learned about the development of a business plan, try these activities to help you become more competent in planning.

ASSESSMENT ONE

1. When developing a business plan, how important is it to have all the information readily available?
2. Explain how good business ideas might develop.
3. Based on information you have learned in PACE, your previous studies, and your knowledge of business success or failure, cite ways you feel a business plan can help minimize failure.
4. A business plan includes many areas. Select two topics often included in a business plan which you believe ought to have top priority in your plan. Explain what you believe ought to be included in each topic. What kind of information would you want?

POSTASSESSMENT

1. Describe why it is important for an entrepreneur to engage in the planning function.
2. Identify and briefly describe the steps of planning.

3. Discuss the process involved in developing a business plan.
4. Outline the information you would want your business plans to include.

Compare your answers to your responses to the preassessment. You may want to check your postassessment answers with your instructor.

SELF-EVALUATION

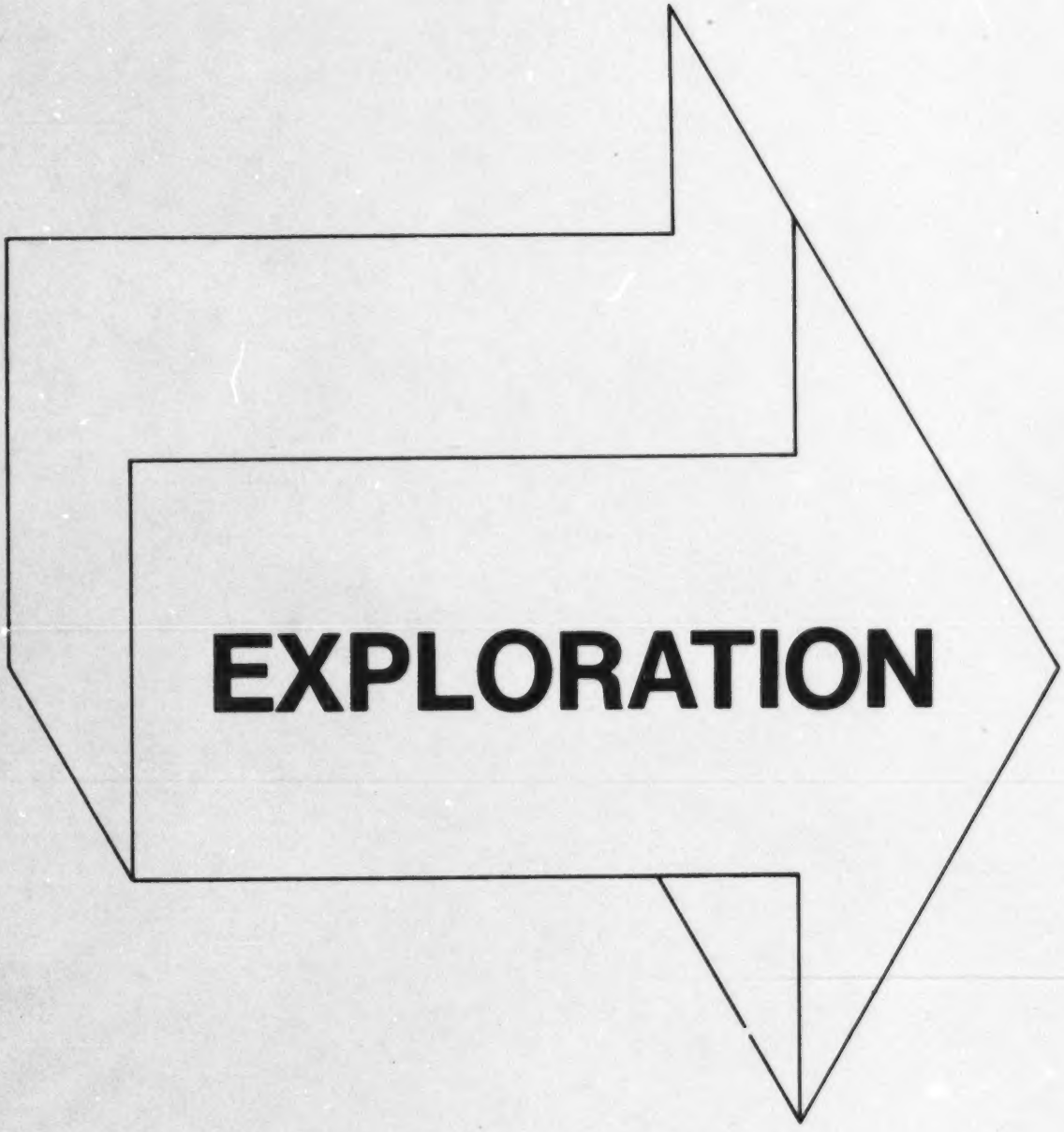
How well did you know the information needed to do the activities?

( ) Very well

( ) Fairly well

( ) A little

Be honest with yourself. If you feel you don't know the material well enough, it might be helpful to review this section before going on.


EXPLORATION

EXPLORATION

PART II, UNIT A
DEVELOPING THE
BUSINESS PLAN

PREASSESSMENT

Here are some questions that test for knowledge of the contents of this level. If you are very familiar with the information needed to answer them, perhaps you should go to another level or unit -- check with your instructor. Otherwise, jot down your answers. After you've read through this level, take the postassessment at the end of the "Exposure Activities" section and measure what you've learned.

1. What is a business plan made up of?
2. It has often been said that a business owner must have the proper information to develop an effective business plan. What type of information and topical areas do you think you'll need to develop a business plan for your firm?
3. What is the purpose of a business plan?
4. "Planning will eliminate business risks." Explain why you agree or disagree with this statement.

TEACHING/LEARNING OBJECTIVES

Upon completion of this level, you should be able to:

1. Identify the components of a business plan.
2. Describe what is involved in developing a business plan.
3. List the major topical areas of a business plan.
4. Describe in detail the purpose of a business plan.

SUBSTANTIVE INFORMATION

PURPOSE OF BUSINESS PLANS

WHY HAVE A BUSINESS PLAN?

Why do you need a business plan? It can be used to help you think through your business venture. It has many other purposes as well. A business plan is necessary in obtaining money from lending agencies. It will help you seek a partner, obtain a franchise or market line and can be used for many other business transactions. The plan is also an evaluation of the strengths and weaknesses of your venture.

Any entrepreneurial activity has a certain degree of risk. A constant desire among entrepreneurs is to minimize risk. By helping you find out as much as you can before you start, a business plan will do just that. You will eliminate many surprises. A good business plan will help answer the basic question, "Is the risk worth the dollar investment?"

In developing a business plan, check out the facts before starting a new business. Planning requires that you consider all the available alternatives and select the best one. Planning minimizes impulsive decisions and requires careful consideration. It will give you and the people you deal with accurate information about your firm which will be used for decision-making.

Did you ever set up a refreshment stand when you were a kid? Perhaps you and a couple of friends made some iced drink, set up a crate or table on the lawn, sold three or so glasses

to neighbors and made a few cents. Then you drank the rest yourself. That was probably your first venture as an entrepreneur.

Maybe you remember a later time when you and your friends wanted to do things somewhat differently. You talked about the idea with your parents and built a small stand, made a readable sign, and located on a busy corner by a construction crew on a hot day. You sold three jugs of iced drink and made a few dollars, and even did it the next day and sold cookies. Would you want to start a $50,000 business with your own or others' money by developing a business plan or would you decided to open that business the way you opened your first iced drink stand?

Business planning is like any other planning attempt. You can do a quick "once over" that covers the obvious items, or you can do a thorough job that considers many details. The more complete the plan, the more likely your enterprise is to succeed.

However, no plan can include all the information you require, nor can it anticipate all of your needs and problems. Your business plan should contain what you, your advisers, and your resources consider important.

PROGRESS OF BUSINESS PLANNING

WHAT SHOULD A BUSINESS PLAN INCLUDE?

What does the business plan include? What makes it work? A good way to start a business plan is to make a list for your business. Include everything that comes to mind. Below is a list of questions you should consider before opening a business. When you complete the list, you will probably think, "Wow! I didn't realize there was so much to think about!" But after all, that is one of the benefits of planning--finding out what you need to know.

In planning your business, you will have to consider many questions including, but not limited to, the following:

1. What is my business?
   - A. What do I sell?
   - B. What should I provide to my customers?
   - C. Where do I expect to make the most profit?
2. What goods or services should I provide?
   - A. What goods or services will I actually provide?
   - B. Who are my suppliers?
   - C. What kind of pricing setup will I have?
   - D. What kind of physical facilities do I need?
   - E. What modifications of the facilities will be necessary?

3. What is my market area?
   - A. Who are my customers?
   - B. Where do they come from?
   - C. What are the economic characteristics of my customers?
   - D. How can I reach my market?
4. Who is my competition?
   - A. Who else has the same type of business?
   - B. What are their strong and weak points?
   - C. How can I be more competitive?
5. What are my production, operation or merchandise plans?
   - A. How will my product or service be produced?
   - B. How will it be sold?
   - C. How will people know about my business?
6. What financial data is available?
   - A. What are the prevailing interest rates?
   - B. Where can I obtain money?
   - C. How much money will I need?
   - D. Where can I get help to answer my financial questions?
7. What about the personnel area?
   - A. What kinds of employees do I need?
   - B. How will the work flow in my business?
   - C. What kind of organization will I need?

8. What economic information do I need?
   - A. What are the financial needs of others in the business?
   - B. Have similar businesses succeeded or failed?
   - C. What are the economic characteristics of the community?
   - D. How can I get economic information?

9. What legal aspects should concern me?
   - A. What laws and regulations apply to my business?
   - B. Do I need a license or permit?
   - C. What taxes will I have to pay?

10. How much capital will I need?
   - A. What will my facilities cost me?
   - B. What will my personnel cost me?
   - C. What will my equipment or tools cost me?
   - D. What will my inventory of materials and supplies cost?
   - E. How long will it be before I make a profit?

11. Where should the business be located?
   - A. What kind of community needs my products or services?
   - B. What transportation considerations do I need to think about?
   - C. How will my location in the community affect my business?

INFORMATION IN A BUSINESS PLAN

WHAT INFORMATION SHOULD A BUSINESS PLAN INCLUDE?

A good plan will contain the following information:

1. A description of the business including a description of the product or service.
2. A description of the management plan including the organization plan and a description of the key personnel.
3. A description of the business ownership including information on key stockholders (if applicable).
4. A description of the marketing plan including descriptions of customers, competition, and distribution channels.
5. A description of the industry that you are entering including trends and competition.
6. A description of your product or service including information about your plant or store site, your supply sources.
7. A description of your financing needs including estimated start-up costs, a projection of estimated operating income and expenses, and a projected cash flow statement for the first few months or the first year.
8. A description of current financial data including information on your financial management plan and the names of your auditor or bank if you have one.

EXPLORATION ACTIVITIES

Do you feel competent enough to be able to use these planning principles in developing a business plan? The following activities simulate "real" business planning situations and will give you an opportunity to put into practice what you have learned. After completing the activities, do a self-evaluation to check your understanding of the material.

ASSESSMENT ONE

1. Select three of the six types of businesses listed below. For each, identify what a business plan ought to include. Did you, because of the type of business, include some topics in the business plan for one type of business and not in the plan for another?

   - a plant shop _____
   - a bike repair shop _____
   - a farm supply store _____
   - a tree farm _____
   - a child day care center _____
   - a TV repair shop _____

2. Interview two people you feel are successful entrepreneurs. Find out if they developed a business plan. What did they include in the plan? How long did it take to develop the plan? What recommendations and advice did they give you about opening your own business? Report your findings in no more than five pages.

3. Why are business plans considered important?

POSTASSESSMENT

1. Name the eight parts of a business plan.
2. "To develop an effective business, the business owner must have adequate information." Discuss this statement. What type of information and topical areas do you think you will need to develop a business plan for your firm?
3. Describe in detail the purpose of a business plan.
4. "Planning will eliminate business risks." Do you agree or disagree with this statement? Why?

Compare your answers to your responses to the preassessment. You may want to check your postassessment answers with your instructor.

SELF-EVALUATION

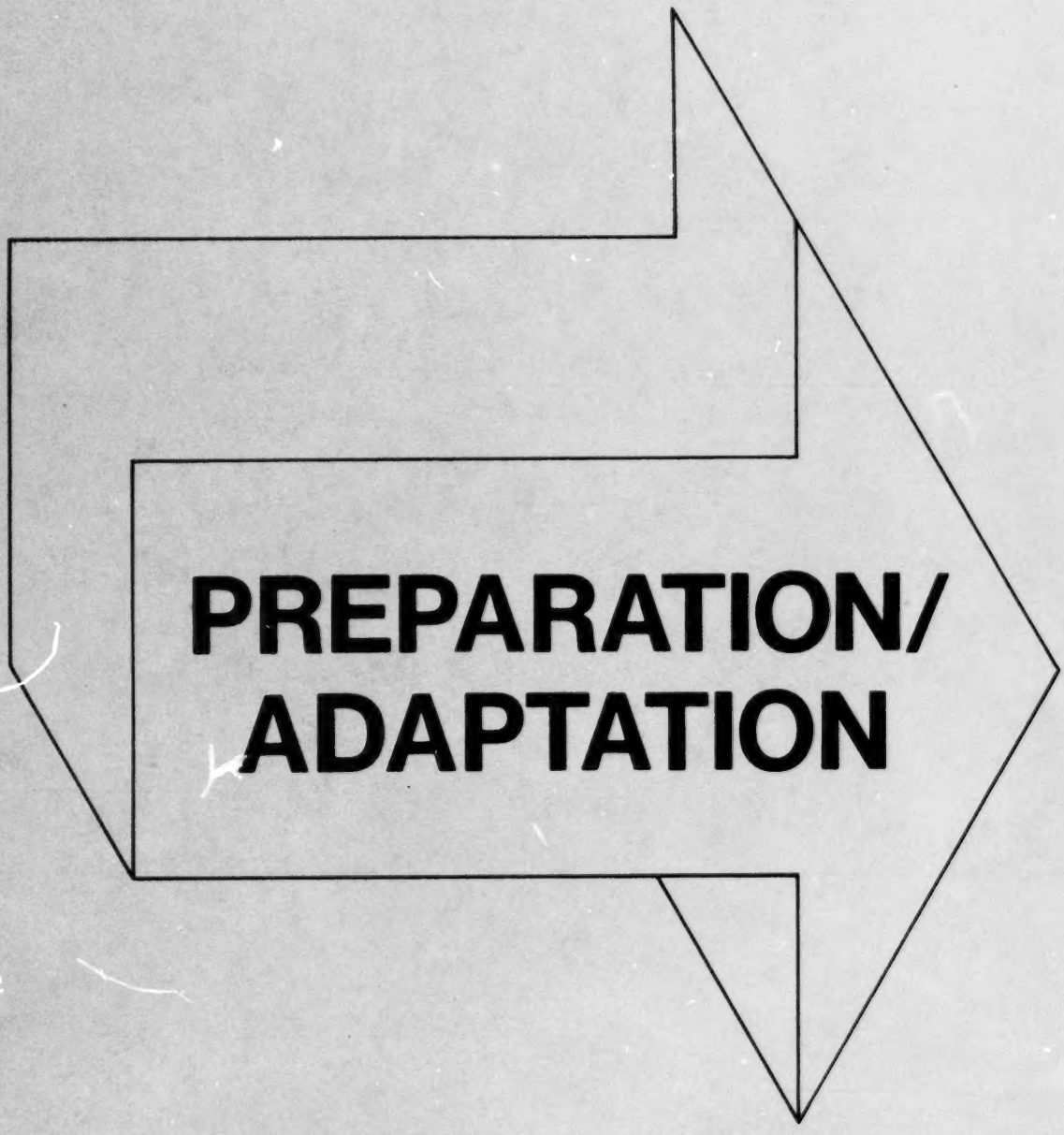
How well did you know the information needed to do the activities?

( ) Very well

( ) Fairly well

( ) A little

Be honest with yourself. If you feel you don't know the material well enough, it might be helpful to review this section before going on.


PREPARATION/
ADAPTATION

PREPARATION/
ADAPTATION

PART II, UNIT A
DEVELOPING THE
BUSINESS PLAN

PREASSESSMENT

Here are some questions that test for knowledge of the contents of this level. If you are very familiar with the information needed to answer them, perhaps you should go to another level or unit -- check with your instructor. Otherwise, jot down your answers. After you've read through this level, take the postassessment at the end of the "Preparation/Adaptation Activities" section and measure what you've learned.

1. Do you feel that there is a relationship between planning and success?
2. What information is needed to develop a business plan?
3. Prepare a tentative business plan outline for your business.
4. "Planning takes time, but is well worth the effort." What are the advantages of planning?

TEACHING/LEARNING OBJECTIVES

Upon completion of this level, you should be able to:

1. Locate and obtain the information necessary to develop a business plan.
2. Prepare a plan for your intended business.
3. Evaluate the completeness of your business plan.

SUBSTANTIVE INFORMATION

PURPOSE OF A BUSINESS PLAN

WHY HAVE A BUSINESS PLAN?

Statistics show that only one out of three businesses will survive five years after the enterprise has originated. One of the main reasons for failure is lack of capital or financial backing. In fact, most articles on entrepreneurship discuss financial aspects more than any other factor to consider when starting a business.

Although financial matters are very important, an effective business plan deals with all aspects of starting and operating a business venture. Below are some reasons why you, as an entrepreneur, should develop a good business plan:

A. The specification of goals and activities will help keep your efforts purposeful.

B. You will have a plan to follow.

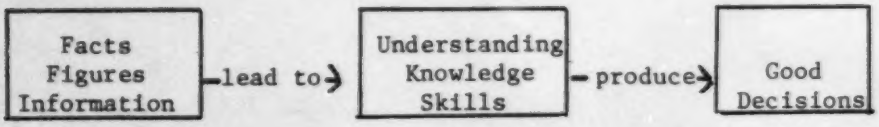
C. You will be able to show the facts and figures of your business venture to other involved parties--lending agents, prospective partners, investors, suppliers, etc.

D. It will help you see how all the pieces of your venture fit together.

E. It will provide information for decision-making.

F. It will be a working document that can be used in many business transactions.

A good business plan helps change ideas to realities. The following diagram illustrates the ideal business planning process:



INFORMATION NEEDED TO DEVELOP THE BUSINESS PLAN

WHAT INFORMATION DO YOU NEED?

Constructing a business plan is like putting a puzzle together to get the whole picture. You will need a great deal of information from many sources to make the right decisions. Information often comes in bits and pieces; information from one part of the plan is often dependent upon that from another part of the plan. Consequently, it is difficult to gather all the information for one part and then go on to the next part.

Can you answer the following questions? Below are some areas in which you will need information for your business plan. These questions are suggested for any business, and include the following:

1. Getting ready to become a business owner.
   A. What kind of business am I in?
   B. What are my strengths and weaknesses as a manager/owner?
   C. What are my abilities?
2. Becoming a business owner.
   A. What is the status of the local economy?
   B. What do I need to know concerning location?
   C. What do I need to know about my competitors?
   D. Should I buy an existing business?
   E. What are my capital needs?
   F. What are the capital needs of similar businesses?
   G. What will the expenses by per month?
   H. What insurance protection is needed?
   I. What legal regulations will affect my business?
3. Being a business owner.
   A. What are my organizational plans?
   B. How will I decide on price?
   C. What do I need in labor skills?
   D. What are my advertising plans?
   E. What will be the break-even point?

THE BUSINESS PLAN

WHAT IS IN THE BUSINESS PLAN?

Now that you have answered these questions, you can prepare the document called a business plan. Every good business plan includes a description of the following:

. Business

. Market for the service or product

. Major goals and objectives for the business

. Resources required

. Current status of the business

Below is comprehensive business plan. It includes detailed information in these areas:

1. Description of the business.

   Answers questions such as:

   . What kind of business am I in?

   . What goods or services do I provide?

   . What advantages does my product or service have over my competition?

2. Description of management.

   Answers questions such as:

   . What is the organizational scheme?

   . Who are the key individuals?

   . What are present salaries, benefits, etc.?

3. Description of ownership.

   Answers questions such as:

   . Who are the current stockholders (if applicable)?

   . Who are the principal nonmanagement investors?

4. Description of marketing.

   Answers questions such as:

   . What are the markets served?

   . Who are or would be the principal customers?

   . Who is the competition?

   . What are the distribution channels?

   . What is the marketing strategy?

5. Description of the industry in which the business will operate.

   Answers questions such as:

   . What is the history of the industry?

   . What are the competitive factors?

   . What are the trends?

6. Description of production or service operation.

   Answers questions such as:

   . Is the current/planned plant owned or leased?

   . What are my sources of supply?

   . What is the current/planned labor supply?

7. Description of financing.

   Answers questions such as:

   . What are the estimated start-up costs?

   . What is the projected operating income and expenses?

   . What is the projected cash flow for the first several months or the first year?

. What financing is sought?

. How would the application be made for financing?

. What is the ownership control?

8. Description of financial data.

Answers questions such as:

. Who is my auditor, legal counsel, bank (if applicable)?

. What is the financial management plan?

. What additional financial data is available?

Which of these items or categories should be included in your business plan? Only you, with advice from other sources can determine what your plan should include. You might need to add or delete items depending upon your situation. However, your plan should be comprehensive enough to help you get your business started and keep it operating successfully.

More detailed information on obtaining financing, record keeping, financial management, site selection, and marketing are contained in other units of PACE. As you go through these other units, you will want to keep your potential business plan in mind.

PREPARATION/ADAPTATION ACTIVITIES

Are you able to apply these business plan principles to your business aspirations? Are you now knowledgeable about the various aspects of business plans? The following activities should help you check your knowledge.

ASSESSMENT ONE

Read the case study below.

SHARON EASTWOOD: STARTING A NEW BUSINESS

Sharon Eastwood was employed as a manager for a leading restaurant chain for the first five years following her graduation from a postsecondary school where she studied restaurant management. For the past two years she has held a similar position with an independent restaurant in a major metropolitan area.

At the present time she is planning to start her own restaurant in her home town, a southern community with a population of about twenty-eight hundred and a rural trading area containing an additional two thousand people. It is estimated that the total trading area contains between fifteen hundred and sixteen hundred families. Family income in the area is near the United States average. Population has been increasing at the rate of about 10% per year over the past ten years, and the outlook is for continuing increases at about this same rate.

Two restaurants now operate in this community. The newest and most modern is The Outlook. It is operated by a young man who has a reputation for being very progressive. This restaurant caters to the young crowd and is a chain affiliate of a leading national restaurant chain. The other establishment, Clayton's Inn, is not as modern. Mr. Clayton, who is sixty-three years of age and not very healthy, wishes to retire and move to North Carolina. In spite of the less modern character of his restaurant, he has been able to maintain a customer volume as large as The Outlook, presumably because of his friendly personality and leadership in community affairs.

Sharon has two alternatives. She can purchase the Clayton restaurant, or she can start a new restaurant in a satisfactory building that she can lease on favorable terms. Mr. Clayton, who owns his restaurant building, has offered to lease it to Sharon for the same monthly rent asked by the owner of the vacant building. The two buildings are close to each other and appear to be equally desirable from an operating standpoint. Careful estimates have been made of the necessary investment. The price asked by Clayton for his fixtures, equipment, inventory, and supplies is very close to the amount Sharon figures she would need for assembling everything required for the new restaurant, assuming that she would get some slightly used fixtures at a favorable price through a cooperative wholesaler.

1. What advice would you give in this case?
2. Outline the factors that should be considered by Sharon, indicating which ones would be most significant.

ASSESSMENT TWO

1. "Planning is a never-ending function of management. Unfortunately, so many businesses do not realize that planning is a continual activity." Do you agree or disagree with this statement? Why? Why not?
2. Invite two or three small business owners to meet with your group. Each business should be at least two years old. Have the owners discuss the planning used to open the business. Do they plan now? What do their business plans include? Do they revise their plans?
3. Planning is often described as the process which bridges an idea and the reality. Do you agree with this description of planning?
4. This activity is designed for more than two players.
   A. Select a type of business most of your colleagues are familiar with.
   B. Work through the complete business plan as a group, discussing each part and deciding on the exact wording.

C. After the complete business plan is developed, divide the business plan up equally so that each group has a section. Set a deadline and have each group obtain the desired information and list the resources.

D. When each group has obtained the information, each is to report its findings including the resources identified.

E. Discuss the findings and resources presented by each group.

POSTASSESSMENT

1. Describe what you believe is the relationship, if any, between planning and business success.
2. Identify the information needed to develop a business plan.
3. Prepare a business plan for your business in outline form.
4. "Planning takes time but is well worth the effort." Respond to this statement. What are the advantages of planning?

Compare your answers to your responses to the preassessment. You may want to check your postassessment answers with your instructor.

SELF-EVALUATION

How well did you know the information needed to do the activities?

( ) Very well

( ) Fairly well

( ) A little

Be honest with yourself. If you feel you don't know the material well enough, it might be helpful to review this section before going on.

SOURCES TO CONSULT FOR FURTHER INFORMATION

"Daring To Start Your Own Business." Changing Times, The Kiplinger Magazine 31:6(June 1977): 24-28.

Department of Commerce. Preparing a Business Profile. Washington, D.C.: Government Printing Office, April 1972.

Proximire, W. Can Small Business Survive? Chicago: Henry Regnery Co., 1964.

Shilt, B. S., Evarard, K. E., & Johns, J. M. Business Principles and Management. Cincinnati, Ohio: South-Western Publishing Co., 1973.

Small Business Administration. Washington, D.C.: Government Printing Office.

__. Business Plan for Retailers, Management Aid no. 150, February, 1974.

__. Business Plan for Small Construction Firms, Management Aid no. 221, January, 1974.

__. Business Plan for Small Manufacturers, Management Aid no. 218, July, 1973.

__. Business Plan for Small Service Firms, Management Aid no. 153, October, 1974.

__. Starting and Managing a Retail Flower Shop, 1970.

__. Starting and Managing a Small Business of Your Own, 1973.

__. The First Two Years: Problems of Small Business Firm Growth and Survival, 1961.

"Small Businesses You Can Start on $6,000 and Up." Changing Times, The Kiplinger Magazine 31:8(August 1977): 38-40.

Steinmetz, L. L., Kline, J. B., & Stegall, D. P. Managing the Small Business. Homewood, Illinois: Richard D. Irwin, Inc., 1968.

FILMS

PREPARATION/ADAPTATION LEVEL:

"The Business Plan" (14 min. sd., color, 16 mm) Available for purchase or rental from Sales Branch National Audiovisual Center-General Services Administration, Washington, D. C. 20406. Phone (301) 763-1854.

Dramatizes the need for and elements in a business plan as a management tool for a successful business operation. Deals mainly with discussion between two central characters. One is an appliance store owner, whose business is declining because the owner has not done planning and has failed to keep up with changes. The other is a service writer who has finished two years of night classes in small business training and is planning to open an automobile service shop. The service writer has a business plan and enthusiastically tells why it is important. The service writer's factual presentation of the main points in a business plan convinces the appliance store owner of the necessity of such a plan.

RESEARCH AND DEVELOPMENT SERIES NO. 194 B-1

PACE

A Program for Acquiring Competence in Entrepreneurship

Instructor's Guide

Part II

Becoming An Entrepreneur

Unit A

Developing The Business Plan

THE NATIONAL CENTER
FOR RESEARCH IN VOCATIONAL EDUCATION
THE OHIO STATE UNIVERSITY
1960 KENNY ROAD • COLUMBUS, OHIO 43210

USING THE INSTRUCTOR'S GUIDE

The Instructor's Guide contains the following:

- Teaching/Learning Objectives (identical to the Teaching/Learning Objectives found in the PACE unit)
- Teaching/Learning Delivery Suggestions
- Pre/postassessment Suggested Responses

This information is geared towards the three levels of learning, and is designed for use as a supplemental teaching aid. Additional instructions for using PACE, sources of information, and an annotated glossary can be found in the PACE Resource Guide.

PRE/POSTASSESSMENT
SUGGESTED RESPONSES

EXPOSURE

1. Plans are an important part of any successful business venture. Entrepreneurs perform many activities in operating a business. These activities must be well planned if they are to be effective.

2. Steps in planning include defining goals, examining alternatives for reaching them, selecting and implementing alternatives, and evaluating results.

3. A combination of life experiences contribute to the creation of a business idea. The business plan is designed to make this odea a profitable reality. A plan should answer the following questions (a) Why do I want to be in business? (b) What exactly is my business going to be? (c) What goods and services am I providing? (d) Would a partnership be good for my business, and, if so, who might be a good partner? (e) Who are my competitors? (f) What will it cost to start the business? (g) What are my land, labor, and capital needs?

4. Outlines should reflect answers to questions in No. 3 above.

EXPLORATION

1. A business plan provides detailed information on;
    a. Identification of the business, including type and goods/services provided
    b. Market area
    c. Competition
    d. Production, operation, and merchandise
    e. Financing the venture
    f. Personnel
    g. Legal issues
    h. Location

2. Lists should reflect special needs of respondent's venture and a consideration of factors listed in 1 above.

3. Purpose of a business plan: helps the planner think through the venture, evaluating its strengths and weaknesses; is necessary in obtaining money from lenders; helps in obtaining partners and franchisors.

4. Respondents should note that while risk cannot be eliminated, planning can help minimize risks.

PREPARATION/ADAPTATION

1. Respondents should note that while no set of factors can guarantee success, good planning can increase the probability of being successful.

2. Answers to the following questions may provide some information needed to develop a business plan: (a) What business am I in? (b) What are my strengths and weaknesses as manager-owner? (c) What are my abilities? (d) What is the economic status of the local community? (e) What do I need to know about my competitors? (f) How will I decide prices? (g) What insurance will I need? (h) Should I buy an existing business?

3. Outline should include detailed entries under these headings: (a) description of business, (b) market for product or service, (c) major goals and objectives for the business, (d) required resources, and (e) current status of business.

4. Planning is advantageous because it helps the entrepreneur think through all aspects of the business venture and provides all parties involved with the information needed for decision-making.

LEVELS OF LEARNING	TEACHING/LEARNING OBJECTIVES Upon completion of this level of instruction you should be able to:	TEACHING/LEARNING DELIVERY SUGGESTIONS A variety of different teaching/learning methodologies have been used. To help you organize your work and plan the use of this level these suggestions are made:
Exposure	1. Describe the value of planning. 2. State why business plans are important. 3. Identify the steps of planning.	
Exploration	1. Identify the components of a business plan. 2. Describe what is involved in developing a business plan. 3. List the major topical areas of a business plan. 4. Describe in detail the purpose of a business plan.	Arrange to interview business owners in your local community. Ask them to discuss their business plans.
Preparation/Adaptation	1. Locate and obtain the information necessary to develop a business plan. 2. Prepare a business plan for your intended business. 3. Evaluate the completeness of your business plan.	Arrange to invite business owners to meet with the group to discuss their experiences with business plans.

The PACE series consists of these parts and units.

PART I: GETTING READY TO BECOME AN ENTREPRENEUR

- Unit A: Nature of Small Business
- Unit B: Are You an Entrepreneur?
- Unit C: How to Succeed and How to Fail

PART II: BECOMING AN ENTREPRENEUR

- Unit A: Developing the Business Plan
- Unit B: Where to Locate the Business
- Unit C: Legal Issues and Small Business
- Unit D: Government Regulations and Small Business
- Unit E: Choosing the Type of Ownership
- Unit F: How to Finance the Business
- Unit G: Resources for Managerial Assistance

PART III: BEING AN ENTREPRENEUR

- Unit A: Managing the Business
- Unit B: Financial Management
- Unit C: Keeping the Business Records
- Unit D: Marketing Management
- Unit E: Successful Selling
- Unit F: Managing Human Resources
- Unit G: Community Relations
- Unit H: Business Protection

RESOURCE GUIDE